

HOUSING

T E N N E S S E E

4th Quarter 2015

Tennessee dashboard 4th quarter 2015

(percent change over the year)

Weekly Unemployment Claims	▲ +2%	Total Home Permits*	▲ +31%
Total Nonfarm Employment*	▲ +2%	Mortgage Tax Collections	▼ -14%
Unemployment Rate (percentage points)*	▼ -0.13	Real Estate Transfer Tax Collections	▼ -18%
Homeowner Vacancy Rate (percentage points)	▼ -0.2	Home Prices*	▲ +5%
Rental Vacancy Rate (percentage points)	▼ -1.6	Mortgages Past Due (percentage points)	▼ -0.17
Single-Family Home Permits*	▲ +32%	Foreclosure Rate (percentage points)	▼ -0.03

*seasonally adjusted ▲ positive outcome for economy ▼ negative outcome for economy

Economic Overview

Tennessee's economy showed strong employment growth at the end of 2015.

Tennessee's year closed out strong with growth in all selected employment indicators tracked by this report. Total nonfarm employment gained 25,700 jobs, primarily in service-providing sectors. The labor force bounced back after taking a hit in the third quarter but did not reach its second quarter peak. The unemployment rate is at its lowest point in over a year at 5.57 percent.

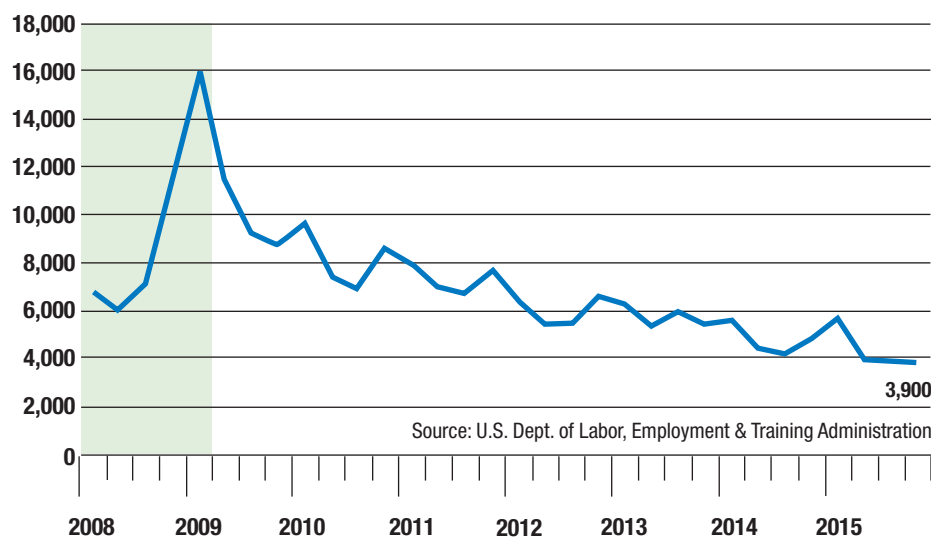
Initial claims for unemployment insurance increased to a slightly higher rate than in the previous quarter;

however, they are still at one of the lowest rates in recent history and are below pre-recession levels.

Compared to one year ago (the fourth quarter of 2014), Tennessee's employment dynamics have improved. The unemployment rate is down a whole percentage point. Additionally, the number of unemployed Tennesseans is down by more than 13 percent, or 26,190. Other strengths include total employment, up 4 percent, and total nonfarm employment, gaining nearly 57,000 jobs.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Over the year, the number of unemployed Tennesseans is down by more than 13 percent, or 26,290.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2014.4	2015.1	2015.2	2015.3	2015.4
Employment by industry (nonfarm)					
Total nonfarm	2,843.4	2,849.7	2,860.3	2,874.6	2,900.3
Goods-producing sectors	442.5	447.1	444.6	444.1	448.6
Manufacturing	329.0	332.1	330.1	331.2	322.9
Services-providing sectors	2,400.8	2,400.9	2,415.9	2,430.5	2,451.7
Labor force	2,989.1	3,037.2	3,095.7	3,058.4	3,061.6
Total employment	2,786.3	2,839.2	2,915.2	2,883.9	2,890.8
Unemployed	196.9	197.9	180.6	174.5	170.8
Unemployment rate	6.6%	6.5%	5.8%	5.7%	5.6%

Source: Bureau of Labor Statistics

The state unemployment rate is at its lowest point in over a year at 5.57 percent.

Vacancy Rates

Vacancy rates this quarter showed positive steps for the state and national economy. At the state level, the rental vacancy rate dropped sharply, falling one percentage point to 7.5 percent. Homeowner vacancy rates fell 0.20 percentage points to the lowest rate of the year, 2.0%.

At the national level, rental vacancy rates fell 0.30 percent to 7% vacancy. Homeowner vacancy rates remained unchanged at 1.9 percent, almost level with Tennessee figures.

The rental vacancy rate is well below pre-recession levels.

Compared to the fourth quarter of 2014, both homeowner and rental vacancy rates for both the state and the nation are almost identical. In terms of long-term performance, the rental vacancy rate is well below pre-recession levels. Homeowner vacancy rates have not yet reached pre-recession levels but are recording some of the lowest rates in recent history.

Figure 2. Homeowner vacancy rate

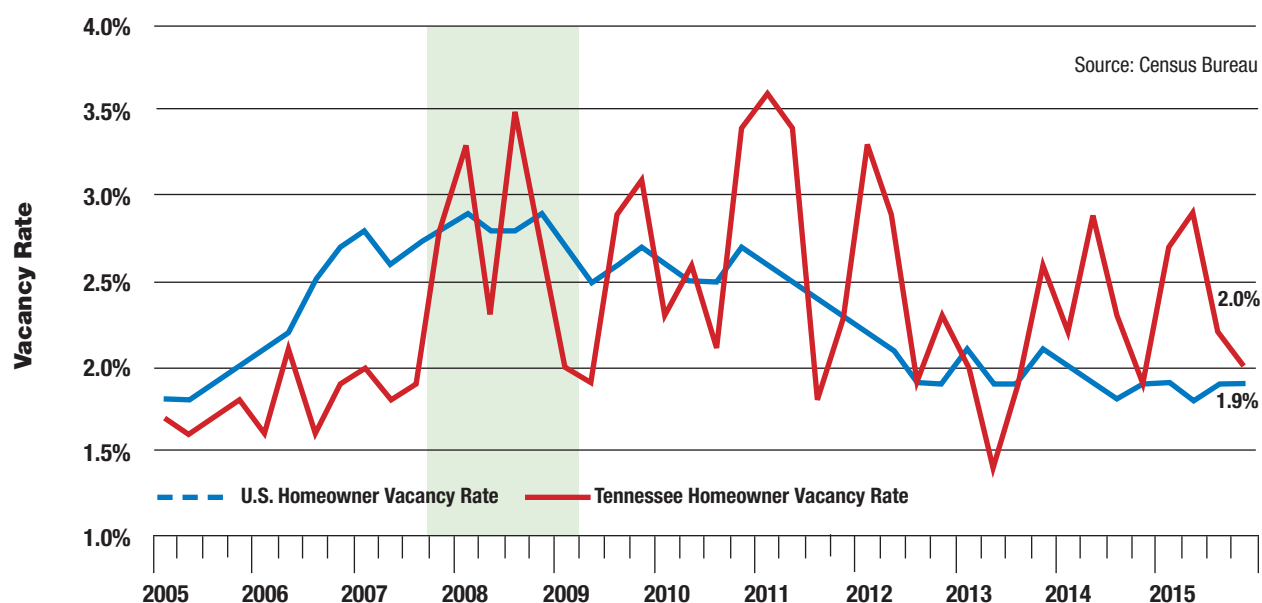
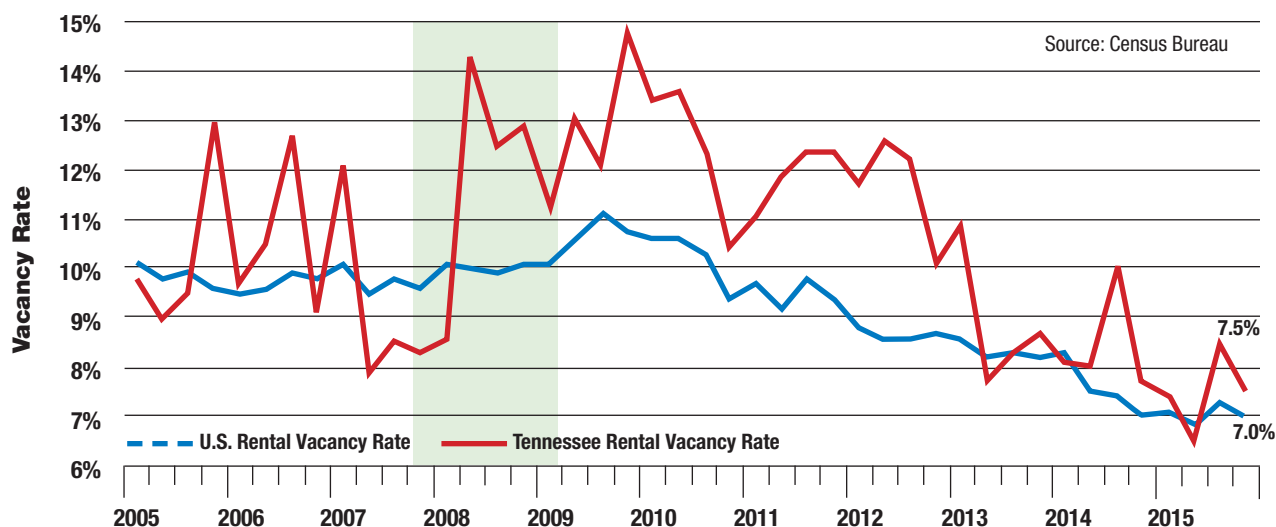


Figure 3. Rental vacancy rate



Housing Construction

Over the year, total permits increased 31 percent for Tennessee.

Strong growth in housing permits continued in the quarter. Multi-family permits outpaced single-family permits in the state, the South, and the nation, growing a remarkable 72 percent in Tennessee to a seasonally adjusted annualized rate of 16,200, compared to the United States (11 percent) and the South (6 percent).

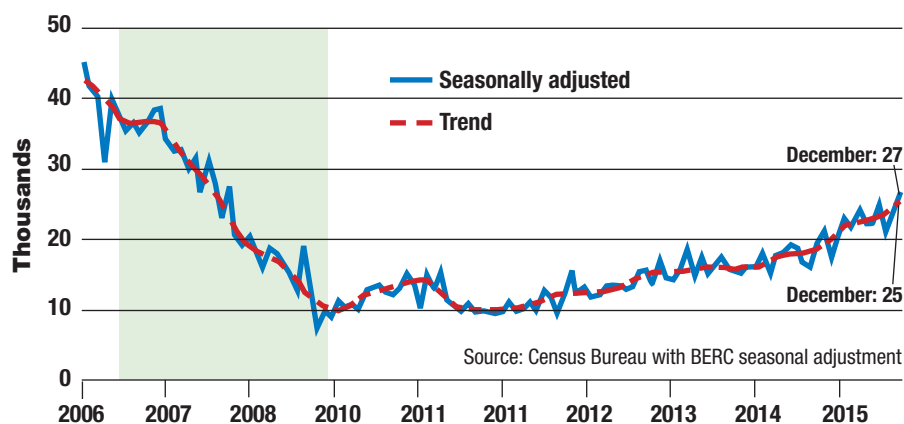
Single-family permits increased slightly for all three areas, with the highest growth in Tennessee, up 4 percent. In total permits, the state (16 percent) and the nation (6 percent) had larger gains than the South.

Compared to one year ago, Tennessee's improvement is nearly double that of the South and the United States. For single-family permits, Tennessee increased 32 percent compared to just 11 percent for the South and 10 percent for the nation. Similarly, Tennessee's multi-family permits were up 28 percent, compared to 12 percent for the South and 18 percent for the United States.

Total permits increased 31 percent for the state, reaching the highest level in more than three years.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Tennessee multi-family permits grew a remarkable 72 percent for the quarter.

Table 2. Permits issued for privately owned new housing

(thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2012.4	15.4	300.7	566.2	6.1	140.1	316.7	20.4	439.0	876.2
2013.1	15.4	319.0	604.3	4.0	143.4	331.0	19.7	463.6	934.8
2013.2	16.4	336.4	626.9	6.6	160.4	338.2	23.4	496.3	956.1
2013.3	15.9	327.7	620.8	7.8	141.1	344.1	23.9	470.0	970.5
2013.4	17.1	325.9	614.5	6.6	166.5	386.5	22.5	490.2	1,000.8
2014.1	16.1	323.8	605.3	10.1	165.9	393.3	26.6	491.2	978.7
2014.2	16.3	331.2	619.6	6.6	164.8	377.9	23.1	495.3	1,008.9
2014.3	18.3	347.8	633.8	4.2	171.7	414.5	22.9	520.9	1,051.4
2014.4	17.9	349.6	641.3	12.7	178.0	412.0	29.2	524.8	1,052.6
2015.1	20.0	356.1	650.0	8.4	171.3	435.1	28.8	529.3	1,079.7
2015.2	23.0	377.3	692.4	9.9	190.9	564.4	32.9	567.2	1,247.5
2015.3	22.9	377.8	697.1	9.4	188.4	437.8	33.1	568.1	1,133.9
2015.4	23.7	386.6	703.7	16.2	199.7	485.5	38.3	583.1	1,201.8
Change from previous quarter	4%	2%	1%	72%	6%	11%	16%	3%	6%
Change from previous year	32%	11%	10%	28%	12%	18%	31%	11%	14%

Source: Census Bureau

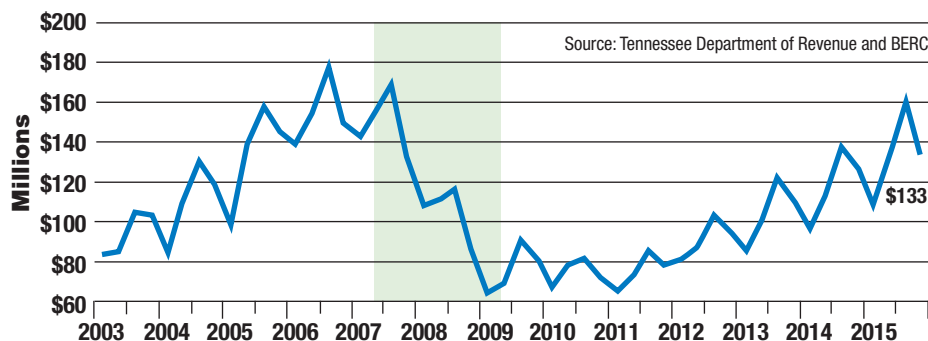
Real Estate Transactions & Mortgages

The downward performance of real estate transfer and mortgages tax collections is one of the quarter's low points. The seasonally adjusted annual rate for mortgage transactions fell by 14 percent to \$58 million. Real estate transfer tax collections fell by 18 percent to \$133 million. Despite the drops in state tax collections, the rate is much higher than one year ago. The annualized rate for

mortgage tax collections is up 16%, or \$8 million. Real estate transfer tax collections increased more than 4 percent, up \$6 million. Mortgage tax collections have not reached pre-recession peak levels but are approaching rates from a few years preceding the recession. In contrast, real estate transfer tax collections are rising, almost back to pre-recession levels.

Figure 5. Real estate transfer tax collections

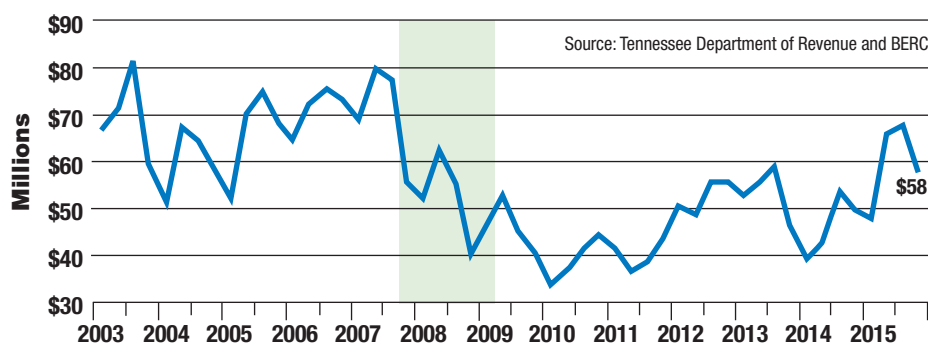
(millions, seasonally adjusted annual rate)



Transfer tax collections over the year approached pre-recession levels.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Over the year, the mortgage tax collection annualized rate is up 16% or \$8 million.

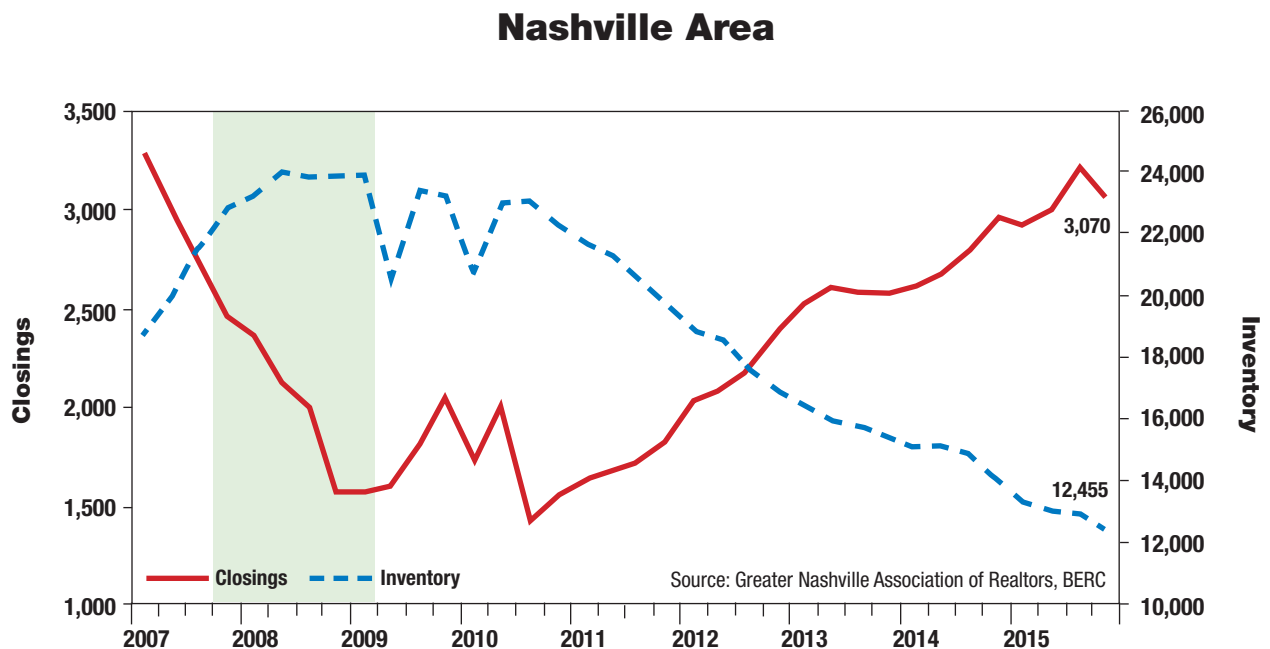
Home Sales

Over the year, inventory fell and home sales rose in all three metro areas.

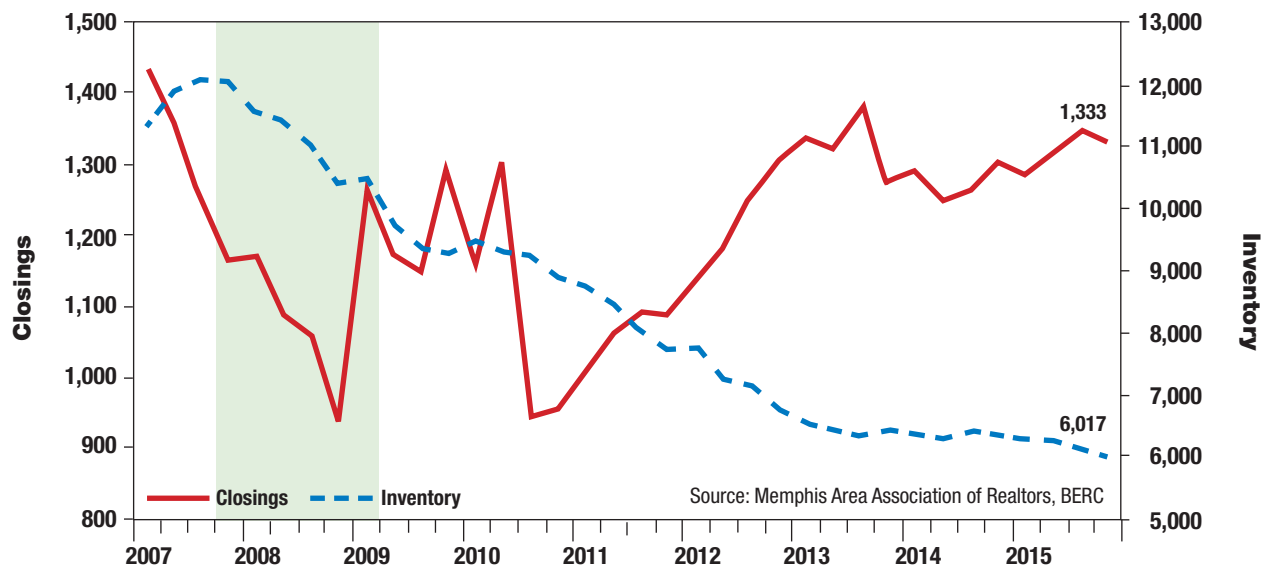
All three metro areas tracked by this report recorded a decreasing inventory for the quarter. Memphis and Knoxville area inventories fell by two percent, while the Nashville area fell by nearly four percent. On the sales front, closings showed relatively no change in Memphis and Knoxville but dropped almost five percent in Nashville.

Compared to one year ago, all three areas are faring much better. Inventories dropped significantly, down 12 percent in the Nashville MSA, 8 percent in the Knoxville MSA, and 5 percent in the Memphis MSA. Sales increased in all three areas as well. For the Knoxville area, the number of closings is up nearly 17 percent.

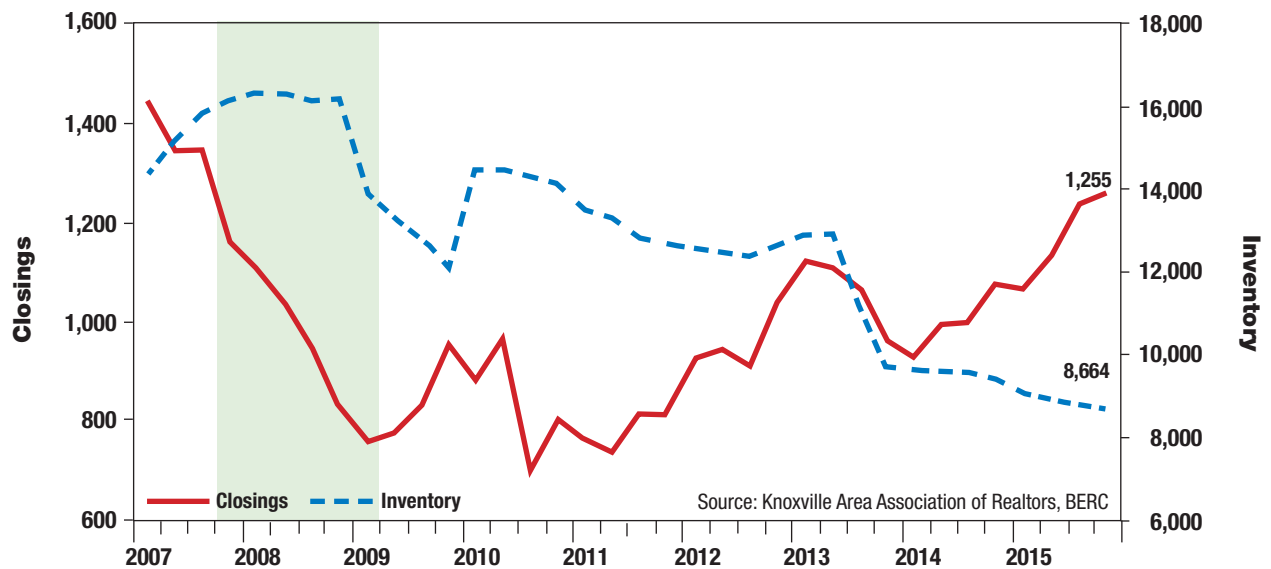
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

The state housing price index is well above pre-recession levels.

The last quarter of the year ended on a positive note for housing prices. The highest year-to-year increases were in the Nashville MSA at 8.2 percent, Morristown MSA at 5.2 percent, and Kingsport-Bristol MSA at 4.9 percent. The Morristown MSA showed great improvement over the third quarter, when prices were unchanged.

The percent change in Tennessee's housing prices has been steadily approaching the national rate for many quarters. Tennessee is only 0.4 percentage points away from the U.S. rate. Index prices point to rising home prices for Tennessee and the nation. The state is well above pre-recession levels, while the United States has almost reached its pre-recession peak.

Morristown MSA improved greatly over the third quarter, when prices were unchanged.

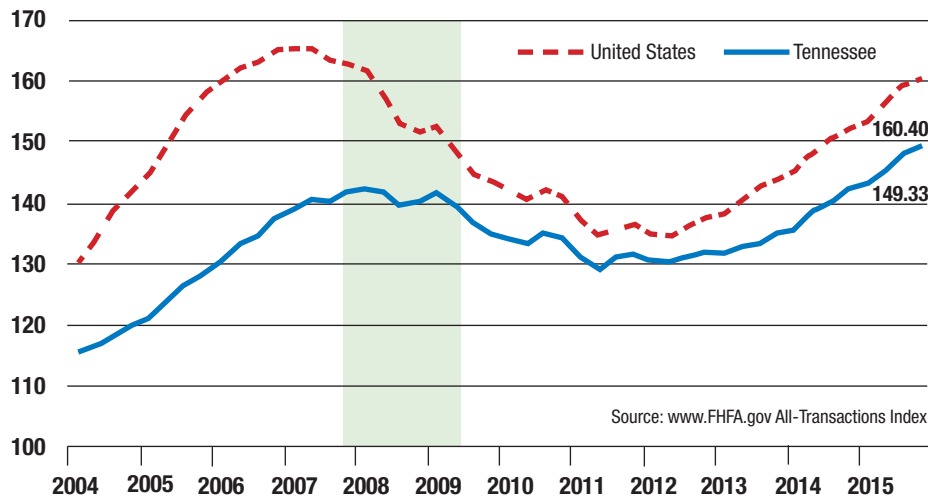
Table 3. Change in housing prices year to year

Area	2014.1–2015.1	2014.2–2015.2	2014.3–2015.3	2014.4–2015.4
Chattanooga MSA	2.1%	3.4%	4.6%	4.6%
Clarksville MSA	-0.9%	3.6%	1.5%	1.9%
Cleveland MSA	2.7%	-2.1%	2.9%	2.6%
Jackson MSA	1.9%	0.2%	-0.2%	3.1%
Johnson City MSA	2.0%	0.6%	0.2%	-0.7%
Kingsport-Bristol MSA	4.3%	3.8%	2.2%	4.9%
Knoxville MSA	4.0%	1.4%	3.2%	1.3%
Memphis MSA	4.7%	4.3%	3.6%	3.3%
Morristown MSA	3.9%	-0.2%	0.0%	5.2%
Nashville MSA	7.3%	8.0%	8.5%	8.2%
Tennessee	5.3%	4.8%	5.4%	5.1%
United States	5.6%	5.5%	5.7%	5.5%

Source: FHFA All-Transactions Index

Tennessee housing price increases have been steadily approaching the U.S. rate for many quarters.

Figure 8. Tennessee FHFA house price index (2000 = 100.0)



Tennessee is well above pre-recession levels, while the United States has almost reached its pre-recession peak.

Mortgage Delinquencies, Foreclosures

Tennessee's percent of mortgages past due and foreclosures continued to fall in the fourth quarter. For the second continuous quarter, mortgages past due fell around a fifth of a percentage point. Foreclosures decreased throughout the year, falling 0.03 percentage points to 0.37%, a rate unprecedented since 2000.

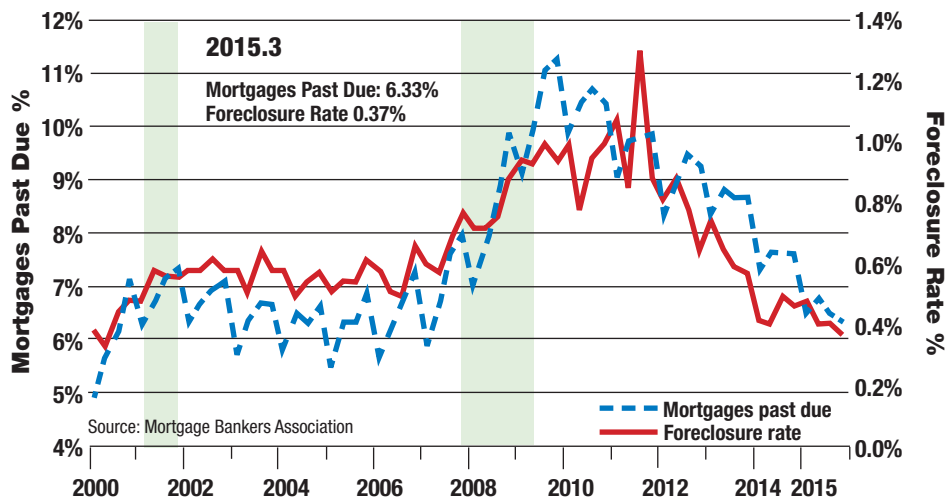
Mortgages past due for the United States were a little over a percentage point lower than for Tennessee. However, the percent of U.S. foreclosures closely followed Tennessee's trend.

Tennessee foreclosures for the year fell to a rate unprecedented since 2000.

Over the year, mortgages past due fell significantly, down nearly a whole percentage point for the nation and 1.32 percentage points for Tennessee. The foreclosure rate showed similar rates of decline, down 0.10 percentage points for the United States and 0.09 for the state.

Figure 9. Tennessee mortgages past due and foreclosure starts

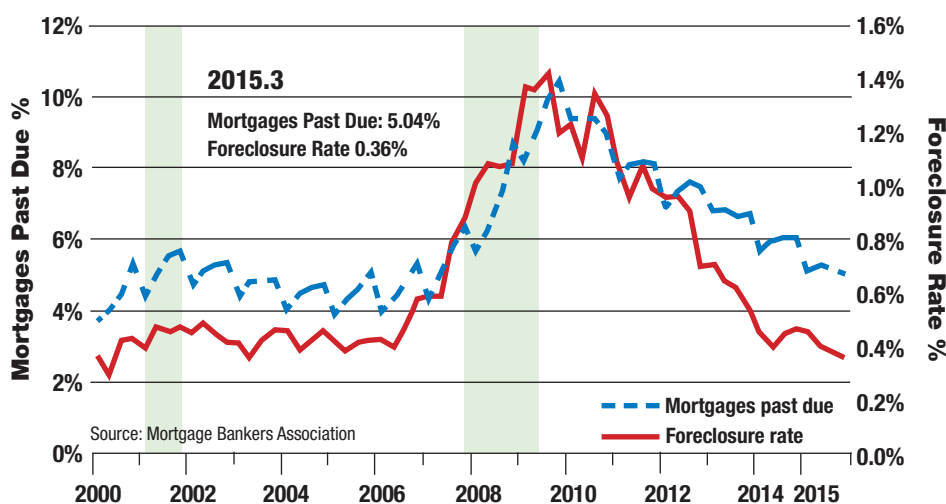
(percent of mortgages in place)



Over the year, Tennessee mortgages past due fell significantly, down 1.32 percentage points.

Figure 10. United States mortgages past due and foreclosure starts

(percent of mortgages in place)



The percent of U.S. foreclosures closely followed Tennessee's trend.

Conclusion

The housing market in Tennessee showed improvement in many areas covered by this report. Employment indicators show a strong employment outlook with a steadily lowering unemployment rate and increasing nonfarm employment. Delinquency rates are at a post-recession low for both mortgages past due and foreclosures started. Nearly all MSAs showed a positive change in housing prices over the year. ■

Perhaps the highest quarterly improvement occurred in Tennessee's multi-family permits, with a 72 percent increase in seasonally annualized rate.



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Glossary

Home Closings/Inventory.

Number of houses sold/number of houses with active listings. A high number of closings and a low number of inventories would demonstrate a positive step for the economy. (Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, and Knoxville Area Association of Realtors)

Homeowner/Rental Vacancy Rate.

Number of vacant units divided by total number of units. A high vacancy rate indicates poor market conditions, a low one strong market conditions. (Source: Census Bureau)

Labor Force.

All persons employed and unemployed but actively looking for a job. Net changes in number of people employed and unemployed are important gauges of the health of the U.S. job market. (Source: Bureau of Labor Statistics)

Mortgage/Real Estate Transfer Tax Collections.

Amount of taxes collected for realty transfers and mortgages, which together account for a large portion of privilege taxes. (Source: Tennessee Department of Revenue)

Mortgages Past Due and Foreclosures Started.

Percentage of mortgages past due and percentage of new foreclosures started, indicating individuals in financial distress. (Source: Mortgage Bankers Association)

Single/Multi-Family Home Permits.

Level of new single- and multi-family housing construction. Housing permits can be early indicators of housing market activity. New residential housing construction generally leads to other types of economic production. (Source: Census Bureau)

Total Nonfarm Employment.

Total number of paid U.S. workers of any business, excluding government, farm, nonprofit, and private household employees; one of the key economic statistics used to analyze whether the economy is expanding or contracting. (Source: Bureau of Labor Statistics)

Unemployment Insurance Claims.

Weekly average layoff figures. The smaller the number, the better the economy is performing. (Source: U.S. Department of Labor)

Unemployment Rate.

Percentage of unemployed individuals divided by the labor force, a determinant of future conditions, used to determine overall economic health. (Source: Bureau of Labor Statistics)